

4. What to Consider Before Retirement

As you near retirement age, it is a good time to review your current financial status and plan for your final career years before retirement. If you are about age 50, or if you are within a few years of your projected retirement date, you may want to consider the following:

Benefits Counseling

How can I obtain information and retirement counseling?

Workshops

CalSTRS invites local school districts to host benefit workshops conducted by a benefits counselor. You may wish to attend a workshop early in your career and three to five years before your retirement.

A schedule of workshops is prepared and distributed in the fall. Schedules should be available at your school site, district office or county office of education.

Personal Interview

Before you file a retirement application, we recommend you schedule a retirement interview with a CalSTRS-trained benefits counselor. These interviews can be face-to-face or over the telephone. During the interview, the benefits counselor will guide you through the application process and provide an estimate of your retirement benefit.

The counselor can also provide information about when you will receive your retirement benefit and answer other questions you may have.

The demand for personal interviews has increased over the years, so you may experience a delay in meeting with a counselor during peak times. However, don't delay filing your retirement application while waiting for an interview.

Use the *Calculators* on www.calstrs.com to estimate a retirement benefit and to obtain more information about CalSTRS benefits.

When should I schedule a pre-retirement interview?

Pre-retirement interviews should be scheduled about 12 months in advance of your planned retirement date.

What information should I have for the interview?

- the anticipated date of your retirement
- an estimate of your unused sick leave
- the number of days you are required to work during the year
- an estimate of your last three years of earnable compensation
- most recent statement of account

You are encouraged to bring your intended or named option beneficiary(ies) to the face-to-face interview. If your option beneficiary(ies) is unable to attend the interview, please be prepared to supply the person(s) date of birth(s). All information shared with the benefits counselor during this interview is confidential and used only for preparing your personal retirement estimate.

See Section 10, General Information, Benefits Counseling or www.calstrs.com for the location of your nearest benefits counselor.

What About Social Security?

Members expecting to receive a full Social Security benefit and a CalSTRS retirement benefit need to know about two Social Security provisions that may reduce the Social Security benefit. A member's

CalSTRS retirement benefit will not be reduced because of these provisions in Social Security law.

These provisions may affect members even if they have earned the minimum 40 Social Security credits through other employment or expect to receive a Social Security benefit based on a spouse's earnings.

Social Security benefits are based on the worker's average monthly earnings over a 35-year period, adjusted for inflation. When Social Security determines your benefits, it separates your average earnings into three amounts and multiplies the amounts using three different factors. For example, for a worker who turns 62 in the year 2003, the first \$606 of average monthly earnings is multiplied by 90 percent, the next \$3,047 is multiplied by 32 percent and the remainder by 15 percent.

Windfall Elimination Provision

Under the Windfall Elimination Provision, Social Security uses an alternative calculation for members who qualify for both a Social Security benefit based on their own covered employment (i.e., private industry) and a CalSTRS retirement benefit. For those who reach 62 or become disabled in 1990 or later, the 90 percent factor is reduced to 40 percent. The exact amount of the reduction is based on the member's years of earnings covered under Social Security and changes every calendar year. In 2003, the maximum reduction in Social Security benefits under the Windfall Elimination Provision is \$303 per month.

CalSTRS members who meet the 40-credit requirement should apply for Social Security, even though the benefit may be reduced. Members are exempt from the Windfall Elimination Provision if they were eligible to retire from CalSTRS prior to January 1, 1986, or if they have 30 or more years of what Social Security calls "substantial earnings" under employment covered by Social Security. In 2003, substantial earnings are \$16,125 or more annually. With 21 to 29 years of substantial earnings, the 90 percent factor is reduced on a sliding scale beginning at 45 percent for 21 years of substantial earnings up to 90 percent for 30 or more years.

Social Security provides a guarantee to protect workers with relatively low pensions. The amount of the reduction under the Windfall Elimination Provision cannot be more than one-half of the

CalSTRS pension based on earnings after 1956 that were not covered by Social Security.

Government Pension Offset

The Government Pension Offset provision affects members expecting to receive a CalSTRS retirement benefit and a Social Security benefit as a spouse, former spouse, widow or widower. Under this provision, the Social Security benefit is reduced by two-thirds of the CalSTRS retirement benefit. If two-thirds of the CalSTRS benefit exceeds the amount of the member's spousal benefit from Social Security, the member will not receive a benefit from Social Security. Members are exempt from the GPO if they were eligible for CalSTRS benefits between December 1982 and June 1983 and were entitled to the Social Security spouse benefit before December 1977.

You may receive an overstated benefit estimate from Social Security because non-Social Security pensions such as CalSTRS are not taken into account in the estimate. You need to contact Social Security for a more accurate estimate of benefits.

For More Information

Due to the complexity of the formulas used in determining Social Security benefits and the many provisions and exceptions in Social Security law, CalSTRS members are urged to speak directly with Social Security representatives. Members can then determine if these provisions or exceptions apply to their individual circumstances.

Contact the Social Security Administration at 800-772-1213 or visit their Web site at www.ssa.gov to review or download publications on the Windfall Elimination Provision and the Government Pension Offset.

More information is available in a brief video on the two provisions at the CalSTRS Web site, www.calstrs.com. Type *Social Security video* in *Search*.

What About Medicare?

While California educators do not pay into Social Security, many do pay for Medicare (1.45 percent of gross earnings). Members are eligible for Medicare if they meet the 40-credit requirement on their own or through their spouse's employment.

For Defined Benefit members who retire before January 1, 2006, CalSTRS will pay Medicare Part A

(hospital) premiums for eligible retired members who do not receive Part A premium free. This benefit may be extended by the Teachers' Retirement Board to members who retire in the future. See page 35 for more details about Medicare and health insurance after retirement.

Retirement Incentive Program

A new law provides two retirement incentive programs that would increase either one or two of the elements used in calculating your CalSTRS service retirement benefit. This would increase the monthly benefit for eligible members whose school districts offer the programs. See Section 5, Service Retirement.

The law allows Defined Benefit members who are eligible to retire to receive either:

- two years of service credit, often called "Golden Handshake"
- OR
- two years of service credit and two years of age added to the age factor (2 + 2)

Effective Dates

The two years of service credit incentive program is effective January 1, 2004. Employers may decide to offer the benefit at any point in the future. The 2 + 2 incentive program is effective between January 3, 2004 and December 31, 2004.

Eligibility

You must be eligible for service retirement and retire within the time period specified by your employer in order to take advantage of the incentive. You are eligible to retire if you are:

- age 55 with at least five years of service credit
- age 50 with at least 30 years of service credit
- age 55 with fewer than five years of service credit but eligible to retire at the same time with another California public retirement system, such as CalPERS.

Restrictions

The additional service credit given in the incentive programs cannot count toward eligibility for service retirement or the credit necessary for other CalSTRS benefit enhancements such as one-year final compensation, career factor and longevity bonus. Also, you cannot participate in both retirement incentives or pay the cost of the benefit in lieu of your

employer. In addition, CalSTRS will not grant partial benefits, unless you receive the 2 + 2 incentive and would otherwise exceed the maximum age factor.

Post-Retirement Employment

You will lose the ongoing increase in your benefit if you:

- become an active member again by returning to CalSTRS-covered employment
- file for unemployment within a year of retirement
- work for any California public school district within a year, OR
- return to the school district that granted you the benefit within five years.

More Information

Call 800-228-5453 or visit www.calstrs.com. Our Web site also includes online calculators that can help you figure the potential boost to your retirement benefit.

Reduced Workload Program

The CalSTRS Reduced Workload Program allows eligible members to reduce their workload from full-time to part-time duties (a minimum of 50 percent of full time) for up to ten years, normally the last ten years before retirement. The opportunity to participate is dependent on your employer offering the program.

You will receive full-time service credit while working less than full time. At the time of retirement, your benefit will be calculated as though you continued to work full time, including determination of final compensation.

You must be age 55 or older, have been employed full time for a minimum 10 years of credited service and have been employed full-time performing creditable service five consecutive years immediately before entering the program.

Both member and employer contributions are paid on the full-time earnable salary, rather than the actual part-time salary earned while participating in the program. Therefore, the employer will be required to pay a higher contribution rate for a member to participate.

The consequences of failing to work at least 50 percent as required by the program can be significant. This occurs if the member does not earn creditable

compensation for at least 50 percent of full time in any one school year. Service credit for the year will be calculated on actual time worked.

For example, a member who was employed 50 percent of full time had her pay docked because she became ill and ran out of sick leave. Consequently she failed to perform creditable service for at least 50 percent of full time that year. Therefore, for that year she would not be eligible to participate in the Reduced Work Program. She would earn service credit for only the time worked.

Retiring before the end of the school year can also affect program participants in the Reduced Workload Program. After discussing the Reduced Workload Program with your employer and reviewing personal qualifications, you must enter into a contractual agreement with your employer to participate.

Concurrent Retirement

CalSTRS DB Program members who are at least age 55 and eligible to retire from certain other California public retirement systems in California may retire with fewer than five years of CalSTRS service credit if they retire from both systems at the same time. Additionally, CalSTRS may use the salaries for service performed under the other retirement system to calculate the CalSTRS retirement benefit. However, if you perform creditable service with both retirement systems during the same period, we are required by law to use the CalSTRS salaries.

The other public retirement systems in California are the Legislator's Retirement System, Public Employees' Retirement System, San Francisco City and County Employees' Retirement System, University of California Retirement System or those systems established under the County Employees' Retirement Law of 1937 (see Section 11, Glossary of Terms, for a list of the counties covered by the act).

Pre-Retirement Election of an Option

If you are eligible to retire, you may make a pre-retirement election of an option for your DB benefit. This election is available if you do not yet wish to retire but want to ensure a monthly lifetime income for another person or persons if you die before retirement. (See Section 5, Service Retirement, for a discussion of options.)

If you die before your retirement, the monthly benefit paid to your beneficiary(ies) is based on the modified benefit that would have been paid if you had retired as of the date of death. At retirement, your benefit will be modified under the elected option.

When you retire, modification of your benefit will be made using the higher of the option factors in effect as of the date you elected the option or in effect on your retirement date.

The example below illustrates two members, one who chooses an option before retirement and another who waits until retirement to choose an option.

The member in the first example has provided a lifetime monthly benefit to a beneficiary—even if the member should die before retirement. Although the benefit will be reduced at retirement, the modified benefit will be slightly higher than it would have been if the member had waited until retirement to choose an option, since the pre-retirement election of an option allows use of the younger member and beneficiary ages.

EXAMPLE

Member Chooses Pre-Retirement Election of an Option

- Member retires at age 60
- Option 2 beneficiary is also age 60
- Both member and option beneficiary were age 55 when pre-retirement option was chosen

Unmodified Benefit \$1,963.89 x **Percentage Payable** x .906 (From table on page 32) = **Member's Modified Benefit** \$1,779.28

Member Chooses an Option at Retirement

- Member retires at age 60
- Option 2 beneficiary is also age 60

Unmodified Benefit \$1,963.89 x **Percentage Payable** x .879 (Option from table on page 32) = **Member's Modified Benefit** \$1,726.26

The advantages and disadvantages of choosing a pre-retirement election of an option must be assessed individually.

Advantages

If you should die before retirement, your option beneficiary(ies) will receive a lifetime monthly benefit. The benefit begins immediately upon your death, regardless of the age of the beneficiary(ies).

In most cases, the modified benefit will be greater if a pre-retirement election of an option is made than if an option is elected at the time of retirement.

If you become disabled after making a pre-retirement election of an option and you have Disability Benefit, Coverage A, you may retain the option election in order to provide a monthly benefit to your option beneficiary.

Disadvantages

If you cancel or change your pre-retirement election of an option before retiring, your retirement benefit will be reduced for life.

If your option beneficiary dies before you retire and you had elected an option, the election will be automatically cancelled and your retirement benefit will be permanently reduced.

Spouse's Signature

If you are married, the form for pre-retirement election of an option must be signed by your spouse or the *Justification for Non-Signature of Spouse* form must be completed and returned with the pre-retirement election. If your spouse does not sign or the *Justification for Non-Signature of Spouse* is not received by CalSTRS, the pre-retirement election is not acceptable and will not be effective until the requirements are met.

The election will be effective on the date signed only if it is received by CalSTRS within 30 days from the date you sign it.

Cancellation of an Existing Pre-Retirement Election of an Option

You may cancel an existing pre-retirement election of an option at any time before retirement. A pre-retirement election of an option is cancelled automatically when a member elects a new option, elects a new option beneficiary(ies) or if the option beneficiary predeceases the member.

If the pre-retirement election of an option is cancelled, an assessment is calculated at retirement. The assessment will reduce your monthly retirement benefit for life.

The factors in effect on the cancellation date of the pre-retirement election of an option will be used to calculate the assessment. The assessment factor is based on the following:

- the option selected
- the amount of time the pre-retirement election was in effect
- the age of the member at the time of election and cancellation
- whether the member has Coverage A or Coverage B
- whether the option beneficiary is the member's spouse

If you are considering canceling your pre-retirement election of an option, electing a different option or naming a different option beneficiary(ies), CalSTRS recommends you meet with a CalSTRS benefits counselor to discuss the possible effects of that change on your retirement benefit. (See page 15 for more information.)

A spouse must sign the cancellation of a pre-retirement election of an option or a *Justification for Non-Signature of Spouse* form must be completed and returned with the request for cancellation. If the spouse's signature is not provided or the *Justification for Non-Signature of Spouse* is not received by CalSTRS, the cancellation is not acceptable and will not be effective until the requirements are met.

For more information regarding pre-retirement election of an option, call CalSTRS Teletalk at 800-228-5453 and select message #300, Pre-Retirement Election of an Option.

Date of Birth Verification

Under some circumstances, CalSTRS will request verification of the birth date of a member and/or an option beneficiary(ies). Acceptable documentation for birth date verification is listed in order of preference:

- copy of certified birth record (recorded at least seven years prior to application for CalSTRS benefits)
- copy of certified church baptismal record (recorded within six years of birth)

- copy of transcript of listing in federal census (recorded within ten years of birth)

If the name has been changed from the name shown on the record of birth, a copy of marriage certificate or court order documenting the change is required. Please do not send originals.

If you do not have any of these records, please contact CalSTRS for assistance.